Research Paper | Business Management | E-ISSN No : 2454-9916 | Volume : 2 | Issue : 12 | Dec 2016

STATUS OF MICROINSURANCE IN INDIA-A REVIEW

Padmalochan Mahanta [1] | Dr. Gitanjali Panda [2] | Dr. Sreekumar [3]

[1] Research Scholar, Fakir Mohan University, Balasore, Odisha.

[2] Lecture in Economics, Department of Social Science, Fakir Mohan University, Balasore, Odisha.

[3] Professor, Decision Science, Rourkela Institute of Management Studies, Rourkela, Odisha.

ABSTRACT

The term "Micro-insurance" was not very well known and well defined before 2000. After success of micro finance the concept has drawn the attention of academics, donors and different governmental agency. Over the last decade and even more so in the last few years a lot of works have been done in this field and many definitions have sprung up from various agencies. Several poverty alleviation programmes of different governments around the world have failed as poor are prone to various kinds of risks like natural calamities and health problems. The impacts of health and life risks have serious consequence on the earning capacity of the poor. So the poor are unable to come out of vicious cycle of poverty. Micro-insurance can be a potential instrument to tackle this problem. In India, the insurance penetration is very low. Around 21.9% of its population is below poverty line (Wikipedia). Hence, there is vast scope for Micro-insurance in India. The Insurance Regulatory and Development Authority of India (IRDA) has come out with new micro- insurance regulation 2005 for development of micro-insurance in India. After formulation of the new regulation there is remarkable growth in product development and business of micro-insurancein India. This paper reviews the status of micro-insurance in India.

1. INTRODUCTION

Governments around the world have made efforts to provide access to different instruments for social protection to the large section of population. Some governments are able to cover some additional social groups, but almost all of them have failed to reach the low income earners in the informal economy. The better off can afford to have access to market based instruments like banking and insurance. But the poor cannot afford these financial instruments. Most countries have social insurance schemes, but they are normally based on labour relations. They are not appropriate for self- employed workers and those in unstable employment. Some governments run social assistance programmes, but they are too meagre to cover all the poor.

Academics and development practitioners have thus turned to the quest for alternative approaches. Several proposals have been made, one of them being micro-insurance. Micro insurance is the protection of low income people against specific peril in exchanges for regular premium payments proportionate to the likelihood and cost of the risk involved. Low income persons living in risky environments are vulnerable to numerous perils, including illness, accidental death and disability, loss of property due to theft or fire, agricultural losses, and disaster. Not only expose to these risks, results in substantial financial losses, but vulnerable households also suffer from ongoing uncertainty about whether and when a loss might occur. Due to this perpetual apprehension, the poor are less likely to take advantage of income generating opportunities that might reduce poverty (Churchill, 2006).

Micro-insurance is defined as "insurance that is accessed by the low income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices. This means that the risk insured under a micro-insurance policy is managed based on insurance principles and funded by premiums" (International Association of Insurance Supervisors, 2007).It is also defined as "essentially risk pooling tools designed for benefit and afford ability of low income persons" (McCord, 2002). The prefix "micro" does not mean at low number of participants or a limited area covered by the schemes. It only indicates that the contribution rates are affordable for low income earners and benefits are therefore limited as well. Micro-insurance is defined in various ways by various authors. This definition is essentially the same as one might use for regular insurance except for the clearly prescribed target market: low-income people. Insurance involves a risk- pooling element. Those in the risk pool who do not suffer a loss during a particular period, essentially pay for the losses experienced by others. Insurance reduces vulnerability as households replace the uncertain prospect of losses with a certainty of making small, regular premium payments.

Insurance is considered as one of the most effective means of reducing the vulnerability of the poor from the impact of disease, theft, violence, disability, fire and other hazards. Insurance protects against unexpected losses by pooling the resources of the many to compensate for the losses of the few, the more uncertain the event the insurance becomes the most economical form of protection (Brown & Churchill, 1999). Policyholders only pay the average loss suffered by the group rather than the actual costs of an individual event; insurance replaces the uncertain prospects of large losses with the certainty of making small, regular, affordable premium payments (Brown and Mc Cord and Churchill, 1999). The primary function of insurance is to act as a risk transfer mechanism, to provide peace of mind and protect against losses. Risk can be handled by; assumption, combination, transfer or loss prevention activities. Insurance schemes utilise the combination of methods by persuading a large number of individuals to pool their risks into a large group to minimise overall risk (Ali, 2000).In the developed world insurance is part of society, such that some forms of cover are required by law. In developing countries the need for such a safety net is much greater, particularly at the poorest levels where vulnerability to risks is much greater and there are fewer opportunities available to recover from a large loss (Brown and Mc Cord, 2000).

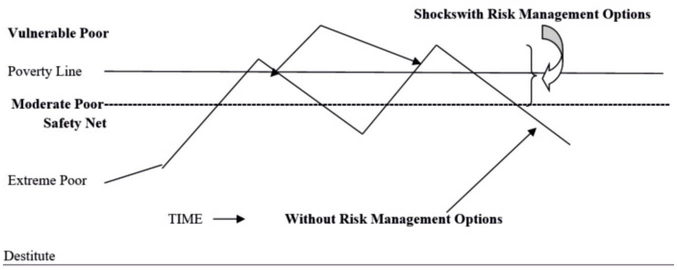
After microcredit comes micro insurance. Lately, the idea of micro insurance has caught the attention of researchers, NGOs, donor agencies, policy makers, and social scientist involved in tackling poverty(Jutting & Ahuja,2004). The optimism that accompanies micro insurance stems mainly from two different sources: 1) the success of microcredit programs in ameliorating the conditions of the poor in different parts of the world by enabling them through assets and/or skill formation to generate sustained income (Morduch, 1999), and 2) the growing recognition of the role that risk plays in the lives of the poor, and hence the need to cope with their various risks. Improving the risk management capacity of the poor has come to be viewed as an integral part of any poverty alleviation program (Holzmann & Jorgensen, 2000).

Micro insurance is for persons ignored by mainstream commercial and social insurance schemes. It is targeted for persons working in informal economy who do not have access to commercial insurance nor to social protection benefits, provided by the employers or by the government through employers. It is easier to offer insurance to persons with a predictable income, even if it is a small sum, than to cover informal economy workers with irregular cash flows. The latter represents micro insurance frontier. There are two aspects of micro insurance- one focused on extending social protection to poor in absence of appropriate government schemes and other offering a vital financial service to low-income households by developing an appropriate business model that enables the poor to be profitable market segment for commercial or cooperative (Ahuja & Guha, 2005).

2. IMPACT OF SHOCKS ON HOUSEHOLD INCOME AND ASSETS

Poor people struggle endlessly to improve their lives. It is a slow and gradual process marked by tentative advances. Continually bombarded with financial pressures, low-income households find that shocks can easily erode their hard earned gains. The result is that their trajectory out of poverty follows a zigzag route: advances reflect time of assets building and income growth; declines are the results of shocks and economic stresses that often push expenditure beyond current income (McCord, 2005). The role of micro insurance, like any other effective risk management instrument, is to temper these downturns, which are major impediments to escaping poverty (Cohen&Sebstad,2006). When confronted with a shock, poor people usually patch together a variety of resources, including formal and informal credit and savings. They also seek out additional work or income generating opportunities to meet their expenses (ICAI Report, 2009).

Figure 1Impact of Shocks on household income and assets



Source: Adapted from McCord, 2005

3. IMPORTANCE OF MICRO INSURANCE

A posting on the World Bank website on January 3, 2007, says, "Micro insurance is every bit as powerful as microcredit. Even better, insurance products can prevent people from falling into poverty in the first place".The role of micro insurance, like any effective risk-management instrument, is to temper these downturns, which are major impediments to escape from poverty. Confronted with a shock, poor people usually look for a variety of resources, including formal and informal credit and savings and seeking out additional work or income generating opportunities to meet their expenses. Understanding these risk management strategies is a starting point for thinking about the demand for insurance by the poor. Insurance provides financial protection for individuals, families and business houses. Insurance assists in making saving possible and helps to furnish a safe and profitable investment. This encourages thrift, minimises worries and increases personal initiatives. Insurance is also helpful in reducing the financial burden on the state. Insurers can accumulate money to be invested in public and private sectors and thus create source of financing new businesses, new homeowners and for farmers and their equipments. In the same perspective the objective is to strike a balance between market perspectives (insurers' view not to lose money) and social protection. Hence, micro insurance schemes for poor must balance the following competing objectives (Cohen & Sebstad,2006).

1. Providing coverage to meet the needs of the target population.
2. Minimizing operating cost for the insurers.
3. Minimizing the price including transaction cost for policy holders to enhance afford ability and accessibility

.

The educated rich and middle income groups of people have access to different kind of financial services including insurance. But poor people usually do not have access to any type of financial services including banking services. Hence, it is important to bring them under the cover of financial services including insurance. In addition to coping with the effect of risks, the poor also need resources to deal with life cycle events such as marriages, birth, death, education and old ages. They need to be able to take advantage of income-generating opportunities or acquire life-enhancing consumer durables such as TVs and refrigerators. The poor therefore occasionally need access to large sum of money to deal comprehensively with these requirements without affecting their current or future livelihood. Unfortunately, the poor have little means for money management, as there is little access to banks and insurance companies (Rutherford,1999).

The social security can be an option for extreme poor who cannot even afford the subsidised insurance. But for the rest of the poor, micro credit and micro insurance can be a viable option. On 14th November 2007, more than 300 micro insurance experts and practitioners from over 50 countries meet in Mumbai, India to discuss trends and recent developments in cost effective insurance for the poor during the 3rd annual micro insurance conference. Inaugurating the conference, Finance Minister of India, P.Chidambaram said, "While growth is the best antidote for poverty, Governments must now turn their attention to those who are at the bottom of the income pyramid. It is clear that wealth does not percolate down to society's poor. In India some 250 million people, over half of the Indian population have no access to banking products, let alone insurance products. Addressing these concerns is as important as focussing on growth," (Chidambaram,2007).

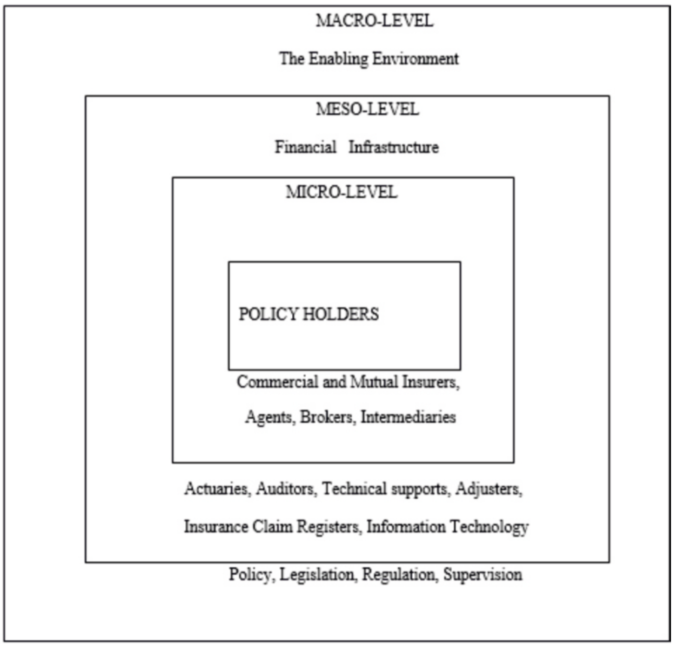
Micro insurance is primarily a phenomenon in developing countries. This is partly because insurance penetration is low and government social protection schemes cover only a small minority of citizens. Consequently, micro insurance has emerged to fill the gap from three parallel entry points. First, to cope with risks, many low income persons form their own mutual benefit associations, burial societies and the like. Some of these unregulated insurance schemes have grown quite large, posing a dilemma for regulators. Second, some development agencies, like ILO, have encouraged persons excluded from commercial and social insurance schemes to create risk pooling mechanisms. The ultimate intention of many of these donor-led efforts is to link them to government support in order to facilitate a redistribution of resources from the rich to the poor. Third, with encouragement from MFIs, some insurers see the vast number of low income persons in developing countries as a new market opportunity. This "new market" perspective has been best articulated by C.K.Prahalad in his book "Fotune at the Bottom Of The Pyramid". Prahalad(2004) identifies the more than four billion persons living on less than US$2 per day as market opportunity if the providers of products and services, including multinational corporations, innovate new business models and create low income consumers.

It is very difficult for the societies to develop without ability to transfer risks. But the insurance business is not going to be sustainable, if the organisation does not make a profit out of it. In micro-insurance one does not make a big margin on each client, but it looks at large numbers, large base. In India, where only 2% of target population has insurance, the potential is huge. Ashvin Parekh says, "Micro-insurance is a volume game. If you generate adequate number of policyholders or investors and you can collect periodic premiums, there is money to be made."

4.THE STRUCTURE AND ENVIRONMENT OF MICRO INSURANCE

Development of micro insurance involves more than the development of new products and new institutions to deliver them. Micro insurance entails the actions of many different institutions at different levels. This is illustrated in the figure 2, which shows how institutions are involved at Micro-, Meso- and Macro-Levels. Effective interventions must take place at each level (Roth.J, McCord.M.J, Liber.D, 2007).

Figure.2 The structure and environments of Micro insurance



Source: J.Roth, Michel J. McCORD, D.Liber (2007)

4. 1 Micro-Level

At the centre of micro insurance system are the policy holders and the micro insurers. The insurer can be single institution that carries the risks, markets or distributes the product and administers the policy. Sometimes the tasks are carried out by separate organisations, so that the risks might be carried by the insurer and the products distributed by a microfinance institution, while a specialised third party might undertake the claims administrations.

4.2 Meso-Level

The meso-level consists of the financial infrastructure needed to facilitate the functioning of micro level activities. For example, actuaries are necessary to assist the insurer in understanding the risks in relation to a product and in setting premiums appropriate to the risks they have accepted. Meso-level infrastructure also includes such things as training facilities for micro insurance managers and staffs, the availability of efficient software, and the servicing to keep it working. An important component of the meso-level is quality market information. Such information is a key to professional product development as well as to the setting of policy, and helps to effectively drive both macro and micro-levels

4.3 Macro-Level

At the macro-level, the state needs to establish the rules under which insurers can operate, and once these rules are set, to supervise insurers to make sure that they comply. Apart from regulating and supervising insurers, governments may need to regulate meso-level actors like actuaries, or claim adjusters. They may also play a role in enhancing consumer protection through the funding of an ombudsman.

5. WORLD INSURANCE SCENARIO AND INSURANCE PENETRATION

As per World insurance Report 2014, published by reinsurance major Swiss Re, the economic environment for insurers improved only marginally in 2014, as

global real gross domestic product (GDP) rose by 2.7%. The growth of gross domestic product (GDP) was 2.5 per cent in 2013. They are below the 10 years average of 2.8 per cent. The improvement was driven by advanced markets, lead by UK. The growth in UK was based on a recovery in domestic consumption due to lower unemployment and lower than expected fiscal tightening. Growth in the US accelerated slightly to 2.4% but was held back by disruptive harsh winter conditions. The growth was also stronger in Western Europe. In advanced Asia, growth slowed due to ongoing sluggishness in Japan. In contrast, the emerging markets grew at a slower aggregate rate of 4.1% in 2014, down from 4.6% in 2013. Many countries struggled with domestic difficulties, structural deficiencies and uncertainty about the impact of the US Federal Reserve (Fed) cutting back its quantitative easing program. Advanced countries' equity markets outperformed their emerging market peers and government bond yields remained very low. As per the report, the total direct premiums written grew by 3.7% in 2014 to USD 4778 billion.

As per the report, global life insurance premium underwritten were US$ 2608 billion in 2013 and US$ 2655 billion in 2014, up 4.3% after a decline of 1.8% in 2013. There was considerable variation in the growth patterns across regions and countries. Of the advanced markets, Oceania registered strong growth. Western Europe and Japan regained momentum and premium in North America continued to decline. Premium growth in emerging Asia strengthened but slowed in Latin America and Africa. In central and Eastern Europe premium fell again. Notwithstanding the acceleration in 2014, advanced market life insurance premium growth has generally stagnated since the financial crisis in 2008. Advanced Asia and Oceania are the only regions to have higher average annual premium growth. The recovery in Non life insurance sector continued in 2014 with global premiums up 2.90% to US$ 2124 billion, slightly higher than the 2.7% growth of 2013 and also better than the pre-crisis average growth. The advanced markets were the main drivers with regional variations. There was slightly slower but still robust 8.0% growth in emerging market premium, down from 8.6% in 2013, but below the pre-crisis average of 10% (Swiss Re, Sigma No. 04/2015).

Table 1 TOTAL REAL PREMIUM GROWTH RATE (In percent)

Regions/Countries	Life		Non-Life		Total	
	2013	2014	2013	2014	2013	2014
Advanced Countries	-0.2	3.8	1.1	1.8	0.3	2.9
Emerging Market	6.4	6.9	8.3	8.0	7.4	7.4
Asia	-6.5	6.1	2.2	7.5	-4.1	6.5
India	-1.1	1.0	2.5	4.8	-0.4	1.8
World	0.7	4.3	2.3	2.9	1.4	3.7

Source: Swiss Re, Sigma No 3/2014 and 4/2015

Table 2 Region wise Life and Non Life Insurance Premium (Premium in USD Billion)

Region/Country	Life		Non life		Total	
	2013	2014	2013	2014	2013	2014
Advanced Economies	2200.25 (57.1)	2232.524 (56.67)	1653.02 (42.9)	1706.79 (43.33)	3853.27 (100)	3939.31 (100.0)
Emerging Markets	407.84 (51.8)	422.03 (50.3)	379.83 (48.2)	416.91 (49.7)	787.67 (100)	838.94 (100,0)
Asia	898.41 (70.3)	892.32 (67.72)	380.37 (29.7)	425.25 (32.28)	1278.78 (100)	1317.57 (100.0)
India	52.17 (79.6)	55.30 (79.12)	13.40 (20.4)	14.59 (20.88)	65.58 (100)	69.89 (100.0)
World	2608.09 (56.2)	2654.55 (55.55)	2032.85 (43.2)	2123.7 (44.45)	4640.94 (100)	4778.25 (100.0)

Source: Swiss Re, Sigma 3/201 & 4/2015;
Note: Figures in brackets indicate share of the segment in per cent

The burgeoning insurance market in India has been able to generate considerable interest and awareness among people. Insurance field is creating new vistas for attracting talent and in this process has reduced unemployment problem. Within the national economy, two measures are used to define insurance. One is insurance density which is average annual per capita premiums within a country and the other is insurance penetration which is a ratio of yearly direct premiums written to gross domestic product. In the non life insurance market, global non life premium growth slowed down to 2.3 per cent in 2013 from 2.7 per cent in 2012, with total premium of USD 2033 billion. The advanced markets barely moved up, with premium up just 1.1 per cent due to stagnation in Western Europe and a slowdown in advanced Asia. In Oceania growth remained significant at 5.1 per cent and in North America it was roughly unchanged at 1.9 per cent. The emerging markets continued to drive global growth. The emerging markets continued to drive global growth. Performance was firm across all emerging regions with the exception of Central and Eastern Europe (CEE). Expansion in emerging Asia was based on sustained strong growth in Southeast Asia and China, and growth was also robust in Latin America (Premium up 7.2 per cent). Post crisis average premium growth from 2009 to 2013 was well below pre-crisis rates in advanced markets. The post crisis average was also lower, but still strong(+7.6 per cent), in emerging markets(IRDA Report 2013-14)

Table 3 INSURANCE PENETRATION AND DENSITY IN INDIA

Year	Life		Non Life		Industry	
	Density (USD)	Penetration (Percentage)	Density (USD)	Penetration (Percentage)	Density (USD)	Penetration (Percentage)
2001	9.1	2.15	2.4	0.56	11.5	2.71
2002	11.7	2.59	3.0	0.67	14.7	3.26
2003	12.9	2.26	3.5	0.62	16.4	2.88
2004	15.7	2.53	4.0	0.64	19.7	3.17
2005	18.3	2.53	4.4	0.61	22.7	3.14
2006	33.2	4.10	5.2	0.60	38.4	4.80
2007	40.4	4.00	6.2	0.60	46.6	4.70
2008	41.2	4.00	6.2	0.60	47.4	4.60
2009	47.7	4.60	6.7	0.60	54.3	5.20
2010	55.7	4.40	8.7	0.71	64.4	5.10
2011	49.0	3.40	10.0	0.70	59.00	4.10
2012	42.7	3.17	10.5	0.78	53.2	3.96
2013	41.0	3.10	11.0	0.80	52.0	3.90
2014	44.0	2.6	11.0	0.7	55.0	3.3

*Insurance Density is measured as ratio of premium (in USD) to total Population
*Insurance Penetration is measured as ratio of Premium (in USD) to GDP (in USD).
*The data of insurance penetration is available with rounding off to one digit after decimal from 2006.
Source: Swiss Re, Sigma, Various issues.

6. Status of Insurance Sector in India

Table 4 Population excluded from insurance in South Asian countries

Countries	Excluded(Percent)	Population(Million)
India	90	950
Bangladesh	93	134
Pakistan	97	147
Nepal	95	23

(Source: Mare Socquetl,2005, ILO/STPP Micro insurance workshop, October, Hyderabad.)

As a risk management strategy, micro insurance shows a great promise for low income population in India. The penetration of micro insurance is extremely low in India. Several demand and supply side challenges have been impending this sector. For some time, the stake holders and donors agree that knowledge development, knowledge sharing and increased coordination among various stakeholders would greatly contribute to the micro insurance development in India. The market potential for micro insurance is huge in India. However, currently the sector is in steep learning curve and will require huge amount of investments in research, technical support, and information exchange and consumer awareness. Effective regulation, affordable products, low cost distribution and systems, increased skills and sound knowledge can all help in converting latent demand to a potent demand for micro insurance(Prasad,2007). However, micro insurance faces several demand and supply driven barriers that arise from:

- Altitude and affordability of the vast majority of people
- Pricing and product design due to several reasons, principally lack of cohesive and reliable data on insurance population and assets
- Inadequate technical knowledge and inappropriate skills
- High distribution and service cost
- Poor consumer awareness and knowledge.

7. DEVELOPMENT OF MICRO INSURANCE IN INDIA

Micro insurance is a phenomenon primarily in developing countries. The reason is the insurance penetration is low and government social protection schemes only cover a small minority of citizens. Thus, micro insurance has emerged to fill up the gap. First, to cope with risks, many low income persons form their own mutual benefit associations. Some of these unregulated insurance schemes have grown very large, posing a dilemma for the regulators. Second, some development agencies like International Labour organisation (ILO) have encouraged persons excluded from commercial and social insurance schemes to create risk pooling mechanisms. The ultimate aim of these donor lead efforts is to link them to government support in order to facilitate a redistribution of resources from rich to poor. Third, with encouragement from MFIs, some insurers see the vast number of low income persons in developing countries as a new market opportunity.

In India, the micro-insurance schemes were introduced either by Non Governmental Organisations (NGOs) due to felt need in the communities in which these organisations were involved or by the trust hospitals. These schemes have now gathered momentum partly due to the development of micro-finance activity, and partly due to the regulation that makes it mandatory for all formal insurance companies to extend their activities to rural and well identified social sector in the country. As a result, increasingly, micro-finance institutions (MFIs) and NGOs are negotiating with the pro-profit insurers for the purchase of customised group or standardised individual insurance schemes for the low income people. Although, the reach of such schemes is still very limited anywhere between 5 and 10 million individuals, their potential is viewed to be considerable(Singh & Gangal,2011).

Rural micro-insurance in India was encouraged by financing institutions primarily to hedge their own risks while lending to the poor under requirements of directed lending. Rural insurance products, therefore, addressed the needs of the poor only incidentally-responding primarily to the needs of lending banks. Rural insurance, guaranteed by the Government under poverty alleviation programs, was built into the credit package as a compulsory element. Credit recipient often received it as part of the cost of borrowing from banks, without fully understanding the concept of insurance or its benefits. Crop and animal husbandry loans were commonly covered by insurance. Most non-life insurance companies had a master policy with the banks at the apex level, with little or no contact with the insured, resulting in substandard service and limited products and creating a negative image of insurance companies.

In 2002, Insurance Regulatory and Development Authority of India (IRDA) established rural and social sector targets for insurance companies. All insurers entering the business after the commencement of IRDA Act 1999 therefore needed to comply with obligations towards the rural and social sectors in a phased manner. The obligations are prescribed under guidelines for insurance companies. Originally, the rural sector was defined quite strictly, with a specification of standards such as a population of fewer than 5000 with more than 25 percent of the male population employed in the agricultural sector. But upon requests from insurers, the IRDA later modified its definition of a rural area, diluting it. The social sector includes unorganised, self-employed individuals, vulnerable population, and disabled persons, among others. For life insurers IRDA has fixed a floor percentage for policies in the rural sector in order to increase insurance business in this target market segment. For non-life insurers, on the other hand, IRDA has fixed a floor percentage for premiums, to encourage a higher number of persons covered. It is ensured in the Act that the minimum required percentage for both life and non-life insurers increase over a five year period for rural and social sector coverage.

Those insurers existing on the date of commencement of the IRDA Act had to ensure that the quantum of insurance business was no less than they recorded on the previous accounting year, ending March 2002.Under new regulation of November 2005, IRDA has for the first time given emphasis on micro insurance. It has defined both general and life micro insurance products. General Insurance refers to any health insurance contract protecting assets such as a hut, livestock, tools and instruments: or an accident contract, either for an individual or a group. The life insurance refers to term insurance contract, with or without return of premium; endowment insurance contract; or health insurance contract; with or without accident rider, either an individual or group basis. The minimum and maximum amount of cover, term of cover, and age at entry for each of these policies has been specified. Companies have to design products under these specifications and get approval from IRDA for them to qualify as micro-insurance products.

The rural and social sector obligations have forced insurers to extend some insurance products to these sectors to meet pro-poor policy objectives. In practice, however, it is the social sector products that have tended to better satisfy the essence of micro-insurance. In contrast, under the rural sector requirements, most companies have preferred to sell insurance for expensive firm equipment such as tractors, harvesters and commercial dairy farming machines, used by relatively well off. It is for the reason that the poor are perceived less as a potential business opportunity and more as a charity oriented social obligation, a requirement that need to be fulfilled to meet Government regulations. Insurance companies prefer to meet the rural targets rather than the social sector ones because larger farmers can be covered. During 2006-07,all 16 private life insurers and the LIC meet their rural sector targets. However, under the social sector two private companies, Bharati Axa and Sriram, did not meet their target, with a short fall in the number of lives covered under the social sector.

Product innovation by life and non-life can be seen in table 5. The life products cleared by IRDA and non-life products filed by insurance companies under 'file and use' procedure during the financial year 2006-07 are summarised. Among the 315 products (38 public; 277 private) only 11 were micro insurance products (6 public; 5 private). The small share of micro-insurance in all insurance products in 2006-07 suggests that most insurers do not invest much thought in treating micro-insurance as a business opportunity, considering it more as a Government obligation to be satisfied with least efforts.

Table.5 Insurance Products

Insurance Products During the Financial Year 2006-07						
All insurance Products and those under micro-insurance	Life Products		Non-life Products		Total products	
	Public	Private	Public	Private	Public	Private
All Insurance Products	8	185	30	92	38	277
Micro insurance Products	-	1	6	4	6	5

Source: IRDA, 2007.

In August 2004 IRDA released a concept paper on micro insurance and used it as platform to engage a variety of stakeholders in a consultative process to discuss future prospects. The result was the revised set of micro insurance regulations published in November 2005.

8. MICRO-INSURANCE LIFE SECTOR

While the individual new business premium under the micro-insurance segment for the year 2014-15 stood at Rs 28.89 Crore for 8.16 lakh new policies, the group business premium amounted to Rs 315.6 Crore covering 2.31 crore lives. Life Insurance Corporation of India (LIC) contributed to a significant component of the business procured in this portfolio by garnering Rs 16.4 crores of individual new business premium under 4 lakh policies and Rs 281.93 crore of group premium covering 2.06 crore lives.

Table6New Business under Micro-insurance Portfolio for 2014-15 (Premium in Lakh Rupees)

	Individual		Group		
	Policies	Premium	Schemes	Premium	Lives Covered
Private Total	416027	1249.22	62	3366.22	2531436
LIC	400341	1640.23	5417	28193.80	20596725
Industry Total	816368	2889.45	5479	31560.02	23128161

Source: IRDA Annual Report 2014-15

The number of micro-insurance agents at the end of March 2015 stood at 20855; of which 19379 agents pertained to LIC and the remaining represented the private sector companies. Thirteen life insurers had 21 micro-insurance products as at 31.3.2015. Of these 21 products, 13 were individual products and the remaining 8 were group products.

Table 7 Details of Micro-insurance Agents of life insurers 2014-15

Insurer	As on 1st April 2014	Addition	Deletion	As on 31st March 2015
Private Total	1656	53	233	1476
LIC	18401	1790	812	19379
Industry Total	20057	1843	1045	20855

Source: IRDA Annual Report 2014-15

In individual death claims out of 13396 total claims 13138 claims comprising 98.07% are settled by insurance companies. In absolute benefit amount out of Rs 2250.87 lakhs claims Rs 2157.53 lakhsare settled comprising 95.85% of total claim amount. Only 247 claims amounting Rs 89.28 lakhs comprising 3.97% of total claims are repudiated on technical ground.

Table 8 Individual Death Claims under Micro-insurance Portfolio 2014-15 (Benefits Amount in Lakhs Rupees)

Life Insurer	Total Claims		Claims Paid		Claims Repudiated		Claims Pending at the End of Year	
	No Lives	Benefit Amount	No of lives	Benefit Amount	No of Lives	Benefit Amount	No of Lives	Benefit Amount
Private Total	1814	405.39	1773 (97.74%)	339.86 (83.84%)	40 (2.21%)	63.83 (15.75%)	1 (0.06%)	1.69 (0.42%)
LIC	11582	1845.48	11365 (98.13%)	1817.67 (98.49%)	207 (1.79%)	25.45 (1.38%)	9 (0.08%)	2.35 (0.13%)
Industry Total	13396	2250.87	13138 (98.07%)	2157.53 (95.85%)	247 (1.84%)	89.28 (3.97%)	10 (0.07%)	4.04 (0.18%)

Note: The percentages indicate those of the respective total claims.
Source: IRDA Annual Report 2014-15

In group death claims also the record of claim settlement is very good. Out of total claims 133491 for benefit amount Rs 42729.70 lakhs the claim settled are 133268 in numbers and Rs42662.28 lakhs in amount comprising around 99.84% of total claim amount. Only 94 claims amounting Rs 36.24 lakhs are repudiated on technical ground.

Table 9 Group Death Claim under Micro-Insurance Portfolio 2014-15 (Benefit Amount in Lakhs Rupees)

Insurer	Total Claims		Claims Paid		Claims Repudiated		Claims Pending at end of Year	
	No Lives	Benefit Amount	No of lives	Benefit Amount	No of Lives	Benefit Amount	No of Lives	Benefit Amount
Private Total	5655	1252.09	5517 (97.56%)	1218.38 (97.31%)	18 (0.32%)	4.96 (0.40%)	120 (2.12%)	28.75 (2.30%)
LIC	127836	41477.61	127751 (99.93%)	41443.90 (99.92%)	76 (0.06%)	31.28 (0.08%)	9 (0.01%)	2.43 (0.01%)
Industry Total	133491	42729.70	133268 (99.83%)	42662.28 (99.84%)	94 (0.07%)	36.24 (0.08%)	129 (0.10%)	31.18 (0.07%)

Note: The percentages indicate those of the respective total claims
Source: IRDA Annual Report 2014-15

In case of non-life business, there are a number of products offered by all registered non life insurance companies targeting low income segment of population, i.e Janata Personal Accident Policy, Gramin Personal Accident Policy, Cattle/Livestock insurance etc. Further there are a number of tailor made/group micro-insurance policies offered by private and public insurers for the benefit of these segments. Micro-insurance being a low price-high volume business, its success and sustainability depends mainly on keeping the transaction costs down.

9. CONCLUSION

Poverty reduction requires not just the generation of sustainable income streams among poor but also protection of incomes through effective risk management. But risk management among poor has received much less attention in comparison to income generation schemes. Micro insurance is an important constituent of broader poverty reduction strategy. The first Millennium Development Goal aims to eradicate extreme poverty and hunger. The Goal also aims at gender equality and empowerment of women. Micro insurance is an instrument to achieve these goals. Insurance is an ex ante risk management tool through which individuals and business hedge potential financial loss in exchange of fixed premium payment. Micro insurance is a set of market based products designed to address both life and non life risks faced by people at the bottom of the socio economic pyramid (BoP). These products are priced at rate affordable for intended clients. In contrast with the well established insurance industry in developed countries, it is in a state of infancy in developing countries. For Bottom of Pyramid (BoP) population there are both supply and demand side bottleneck resulting in a missing market.

This study seeks to answer to the question of how insurance services for the rural poor can manage two seemingly contradictory objectives-the social bottom line and financial bottom line. A well developed insurance sector has both micro implications for households and macro implications for the economy. At the household level, insurance serves as a tool for addressing ex ante risks while at macro level, insurance provides long term funds that can be used for infrastructure development. The necessity of insurance for poor is very urgent but market based insurance may not be applicable to all the categories of the bottom of pyramid population. Insurance as an instrument may not be immediately suitable for all categories of the rural poor. For example the ultra poor, the destitute, the old and infirm , children and other who do not have current productive potential, may require other social security schemes. Just as microcredit is not a panacea to address poverty in its many dimensions, micro insurance should not be seen as the only instrument for all poor persons. It is beneficial for those with income streams and assets to protect. Some 52.4 percent of India's population of 1.21 billion earns less than US$ 2 a day (PPP term) of which one third is estimated to earn less than US$ 1 a day. Micro insurance can be an important constituent of a broader poverty reduction strategy to protect incomes and minimize loss of development gains among low income populations.

REFERENCES

[1] C.ChurchilL. What is insurance for the poor? Protecting the poor-A Micro-insurance Compendium, Publication of International Labour Organisation, Switzerland in association with Munich Re Foundation, Germany.2006.

[2] C. Churchill, Insuring the Low-Income Market : Challenges and Solutions for Commercial Insurers. Geneva Paper on Risk and Insurance –Issues and Practice, 32(3):401-412, 2007.

[3] Michael J.McCORD. Reducing Vulnerability: The Supply of Health Micro-insurance in East Africa.Journal of International Development, Vol.17, Issue 3,April 2005.

[4] IAIS-CGAP.Issues in Regulation and Supervision of Micro-insurance..International Association of Insurance Supervisors and CGAP Working Group on Micro-insurance ,Basel, 2007.

[5] M.Cohen and J.Sebstad. The Demand for Micro-insurance. Protecting the Poor: A Micro-insurance Compendium edited by C.Churchill on behalf of International Labour Organisation, Geneva, ISBN 978-92-2-119254, 2006.

[6] J. Roth,,M.J.McCord, and D. Liber. The Landscape of Micro-insurance in the World's 100 Poorest Countries. The Micro-insurance Centre,1045N,Lynndale,Appleton, LLC,April2007.

[7] Michael J. McCord. Vision of the Future of Micro-insurance, and thoughts on getting there. Microinsurance Note #9,Published by the United States Agency for International Development, USAID, March 2008.

[8] W. Brown and C.Churchill. Providing insurance to low income households: Part 1: A primer on insurance principles and Products.Microenterprise Best Practices Project, Bethesda, MD: DAI/USAID,1999.

[9] C. Churchill,Is Micro insurance a Priority for the poor? Understanding the Demand for Risk Managing Financial Services. Asian Knowledge Centre for Mutual Insurance, 2000.

[10] J. Morduch. Micro-Insurance: the next revolution? Oxford University Press, New York, 2002.

[11] J.Morduch. The role of subsidies in Microfinance: evidence from GrameenBank .Journal of Development Economics, Vol.60(1999) 229-248.

[12] J. Morduch.Poverty and Vulnerability. American Economic Review 84,1994.

[13] J. Morduch. Income smoothing and consumption smoothing. Journal of Economic Perspectives 9(3), Summer, 103-114,1995.

[14] R.Holzmann&S.Jorgensen. Social Risk Management: A new Conceptual Framework for Social Protection and Beyond. Social Protection Discussion Paper No 0006, February 2000, Social Protection Unit, Human Development Network, The World Bank.

[15] J.Roth,C. Churchill, G. Ramm. And Namerta .Micro-insurance and Microfinance Institutions: Evidence from India. CGAP Working Group on Micro-insurance Good and Bad Practices-Case Study No 15, 2005.

[16] R.Ahuja And B. Guha, Micro-insurance in India: Trends and Strategies for further extension, Indian Council

For Research on International Economic Relations, June2005.

[17] C.Churchill,D.Liber, M.J.McCord, and J.Roth, 2003, Making Insurance Work for Microfinance Institutions: A Technical Guide to Developing and Delivering Micro-insurance .International Labour Organisation,Geneva,2003.

[18] N.K.Mittal on behalf of ICAI,NewDelhi.Micro-insurance in India. Published by The publication Department on behalf of The Institute of Chartered Accountants of India, New Delhi, First edition, ISBN 978-81-8441-2444, June 2009.

[19] R. Ahuja.and J. Jutting, Are the Poor too Poor to demand Health Insurance? Indian Council for Research on International Economic Relations, January 2004.

[20] K.Singh and V.Gangal. Micro-insurance-A Tool for Upliftment of Rural India. EXCEL International Journal of Multidisciplinary Management Studies, Vol.1 Issue 3,ISSN 2249 8834, December 2011.

[21] C.K.Prahalad. Fortune at The Bottom of The Pyramid. Wharton School Publishing, ISBN, 978-0-13-146750-7, 2004.

[22] International Labour Organisation. India: An inventory of Micro-Insurance Schemes. Working Paper No.2,Publications of International Labour Office, Geneva,2005.

[23] C. BienerAnd M. Eling. The Performance of Micro-insurance Programs: A Data Development Analysis. The Journal of Risk and Insurance, 2011, Vol.78, No., 83-115.

[24] I.Martin, D.Hulme and S.Rutherford. Finance for the Poor: From microcredit to microfinancial services. Journal of International Development,14,273-294(2002).

[25] Swiss Re Sigma Report. World Insurance in 2014: Back to life. Swiss Re Sigma Report No 4/ 2015.

[26] Insurance Regulatory and Development Authority of India(IRDA) Annual Report 2014-15.

[27] Insurance Regulatory and Development Authority of India(IRDA) Annual Report 2007-8.

[28] Life Insurance Corporation of India 57th Annual Report 2013-14.